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# Investment Policy Statement

*Prepared for:*  
John Doe

November 22, 2013

*Provided by:*  
Joe Advisor



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## Background Information

The Investment Policy Statement considers the information you have provided about your present and future financial circumstances. It is to document and ensure the long-term adherence to an investment program.

1. John Doe (referred to hereinafter as the "Client") is the owner of this investment portfolio ("the Portfolio").
2. The estimated amount of portfolio assets covered by this Investment Policy Statement is \$285,000.
3. The Client tax status: Taxable.
4. The Client will select the investment options (hereinafter referred to as "Managers" or "Products") for the portfolio assets and may engage the service of investment advisors (hereinafter referred to as "Advisors") who possess the qualifications and ability to help provide prudent management of the Portfolio.

## Purpose of the Investment Policy Statement

The Investment Policy Statement is designed to:

1. Establish standards for the management of the assets held in the Portfolio.
2. Define investment parameters to help protect the Portfolio's assets from unreasonable risk due to imprudent acts.
3. Communicate the intent of the Client regarding management of the Portfolio.
4. Provide a written strategy and standard, which will guide the Client in decisions regarding the management of the Portfolio assets.
5. Identify all constraints that exist regarding the investment of the Portfolio assets.
6. Establish the methodology for evaluating manager performance and rebalancing parameters of the Portfolio.

This policy statement should be reviewed at least annually, and revisions should be made as necessary to reflect changes in the Client's circumstances and objectives. All revisions must be made in writing and distributed to the appropriate parties on a timely basis.

## Policy Objectives

The main objectives of the investment program have been developed in conjunction with a review of the Client's financial resources, financial goals, risk tolerance, and time horizon and may include special needs or Client requested constraints as one of the drivers to arrive at an asset allocation. The allocation is meant to provide the Client with a diversified Portfolio, which assumes a reasonable amount of risk in an effort to maximize investment returns. This policy is to reflect, and be consistent with, the investment objectives and risk tolerance.

## Target Asset Allocation Name and Description

Moderate Growth (Taxable)

*This investment strategy has a greater allocation to equity than fixed income with a greater focus on growth than either income or capital preservation. The managers in this profile typically invest in the larger, less volatile growth and value stocks, however, an allocation to mid and even small capitalization companies – which provide diversification – may be appropriate. Stocks of companies are primarily selected based on the return on equity, capital, or investment, rather than yield. An allocation to International markets may help to further diversify the equity portion of the portfolio. Profile 5 carries a moderate level of risk. Appreciation and preservation both are goals of this portfolio. The maximum loss of value measured over any 4 consecutive quarters can exceed -15%, with a typical range between -10% and -15%. The time frame for the full investment cycle is 4 to 5 years with a return objective of CPI (Consumer Price Index) + 7%.*

## Investment Horizon

An investment horizon of 4 to 5 years has been selected. This is the amount of time before all or a portion of the Portfolio's assets will be needed.

## Risk Tolerance

A risk tolerance of 10% to 15% has been selected.

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The Client's ability to tolerate the uncertainties, complexities and volatility inherent in the investment markets has been considered in the development of your investment policy. Some of the main factors that influence the Client's risk tolerance assessment are:

1. Age
2. Present financial condition
3. Future financial goals
4. Discretionary income and its variability
5. and several other factors

These factors suggest the Client's ability to accept investment risk in order to meet the long-term financial goals.

## **Asset Allocation Strategy**

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Dynamic capital markets may cause fluctuating risk/return opportunities over a three-to five-year period (market cycle). After consideration of the Client's investment objective, risk tolerance, and other related factors, the following guidelines will be used for the initial asset allocation of the Portfolio:

<b><u>Asset Class</u></b>	<b><u>Target</u></b>
Cash Equivalents	2.00%
Domestic Large Cap Core	27.00%
Domestic Mid Cap Core	6.50%
Domestic Small Cap Core	6.50%
FI - Long Municipal	33.00%
International Equity	25.00%
<b>Total</b>	<b>100.00%</b>

This overall asset allocation should be reviewed at least annually with the Client, to take account of possible changes in the Client's circumstances and objectives. The allocation does not involve market timing and is intended to represent a diversified approach to investing based upon the Client's stated objectives and investment horizon.

The asset allocation strategy will be implemented using a Portfolio that may consist of individual securities managed by third-party managers, mutual funds, exchange traded funds, and/or more specialized investment securities.

## **Special Instructions**

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### **Restrictions**

Managers for this Portfolio should make every effort to comply with the following restrictions:

*None Specified*

### **Ticker Restrictions - Never Buy**

<b><u>Account Name</u></b>	<b><u>Tickers</u></b>
Account 1	Tabacco

### **Ticker Restrictions - Never Sell**

*None specified*

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All restrictions are on a best efforts basis, and the manager(s) from time to time may not be able to comply with these restrictions. The Client also understands that the manager will not be liable for any error relating to maintaining stated restrictions. In the event a manager cannot comply with the restrictions, the manager should make every effort to notify Client prior to facilitating any transaction that violates these restrictions.

### **Contributions**

<b><u>Account Name</u></b>	<b><u>Amount</u></b>	<b><u>Frequency</u></b>
Account 1	\$10,000	Annually

### **Distributions**

It has been indicated that there is not a need for regular distributions from the Portfolio. Therefore, the investment decisions of any manager should not be influenced.

*None specified*

### **Monitoring and Review**

Investment performance will be monitored and reported to the Client during a specific time period as defined by the selected investment program. The investment performance of the Client's Portfolio shall be compared against appropriate benchmarks. The Portfolio will be reviewed at least annually to make sure that it continues to achieve the Client's stated objectives.

### **Portfolio Rebalancing**

The percentage weighting to each asset class within the Portfolio will vary. The percentage weighting within each asset class will be allowed to vary within a reasonable range depending upon market conditions. When rebalancing is required, investment yield and net cash inflows will be used to meet the strategic asset allocation targets.

### **Client Service**

Your Advisor has been engaged to assist the Client with the development of an investment policy, to monitor the performance of the Portfolio relative to your objectives, and to provide performance reports. The Advisor will meet with the Client on a mutually agreed schedule. The Client agrees to inform the Advisor of any changes in goals or circumstances that may affect the management of this Portfolio.

### **Additional Provisions**

None specified

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## Acceptance and Adoptions

This represents my/our current intentions in regard to the assets described in this policy statement. By acknowledging in writing the receipt of this Investment Policy Statement, all signing parties agree to its terms and conditions.

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*Client Signature*

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*Name (print)*

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*Date*

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*Client Signature*

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*Name (print)*

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*Date*

## Appendix A. Manager/Product Recommendations

The initial Managers/Products in each respective asset class have been selected using the asset allocation results included in this Investment Policy Statement.

### Household Manager/Product Recommendations

Asset Class	Account Name	Manager/Product Name	Ticker/Acronym	Allocation	Amount
<b>Cash Equivalents</b>					
	Account 1 (Kovack Program)	<i>To be determined</i>	N/A	2.00%	\$5,700
<b>Asset Class Total</b>				<b>2.00%</b>	<b>\$5,700</b>
<b>Domestic Large Cap Core</b>					
	Account 1 (Kovack Program)	Alta Capital Management (Large Cap Quality Growth)	ALCDEC	27.00%	\$76,950
<b>Asset Class Total</b>				<b>27.00%</b>	<b>\$76,950</b>
<b>Domestic Mid Cap Core</b>					
	Account 1 (Kovack Program)	Barclays (iShares S&P Midcap 400 Index)	IJH	6.50%	\$18,525
<b>Asset Class Total</b>				<b>6.50%</b>	<b>\$18,525</b>
<b>Domestic Small Cap Core</b>					
	Account 1 (Kovack Program)	Barclays (iShares Russell 2000 Index)	IWM	6.50%	\$18,525
<b>Asset Class Total</b>				<b>6.50%</b>	<b>\$18,525</b>
<b>FI - Long Municipal</b>					
	Account 1 (Kovack Program)	SSgA (SPDR Barclays Capital Municipal Bond)	TFI	7.02%	\$20,000
	Account 1 (Kovack Program)	Barclays (iShares S&P California Municipal Bond)	CMF	7.02%	\$20,000
	Account 1 (Kovack Program)	Franklin Group (Federal Tax-Free Income A)	FKTIX	7.02%	\$20,000
	Account 1 (Kovack Program)	Nuveen Mutual Funds (All-American Muni Bond)	FLAAX	7.02%	\$20,000
	Account 1 (Kovack Program)	SSgA (SPDR Barclays Capital Cali Muni Bond)	CXA	4.93%	\$14,050
<b>Asset Class Total</b>				<b>33.00%</b>	<b>\$94,050</b>
<b>International Equity</b>					
	Account 1 (Kovack Program)	Harding Loevner (International Equity ADR)	HLVIEA	17.54%	\$50,000
	Account 1 (Kovack Program)	Barclays (iShares S&P Europe 350 Index)	IEV	7.46%	\$21,250
<b>Asset Class Total</b>				<b>25.00%</b>	<b>\$71,250</b>
<b>Total</b>				<b>100.00%</b>	<b>\$285,000</b>

## Account Manager/Product Recommendations

<u>Account Name</u>				
<u>Asset Class</u>	<u>Manager/Product Name</u>	<u>Ticker/Acronym</u>	<u>Allocation</u>	<u>Amount</u>
<b>Account 1 (Kovack Program)</b>				
Cash Equivalents	<i>To be determined</i>	N/A	2.00%	\$5,700
Domestic Large Cap Core	Alta Capital Management (Large Cap Quality Growth)	ALCDEC	27.00%	\$76,950
Domestic Mid Cap Core	Barclays (iShares S&P Midcap 400 Index)	IJH	6.50%	\$18,525
Domestic Small Cap Core	Barclays (iShares Russell 2000 Index)	IWM	6.50%	\$18,525
FI - Long Municipal	SSgA (SPDR Barclays Capital Municipal Bond)	TFI	7.02%	\$20,000
FI - Long Municipal	Barclays (iShares S&P California Municipal Bond)	CMF	7.02%	\$20,000
FI - Long Municipal	Franklin Group (Federal Tax-Free Income A)	FKTIX	7.02%	\$20,000
FI - Long Municipal	Nuveen Mutual Funds (All-American Muni Bond)	FLAAX	7.02%	\$20,000
FI - Long Municipal	SSgA (SPDR Barclays Capital Cali Muni Bond)	CXA	4.93%	\$14,050
International Equity	Harding Loevner (International Equity ADR)	HLVIEA	17.54%	\$50,000
International Equity	Barclays (iShares S&P Europe 350 Index)	IEV	7.46%	\$21,250
<b>Account Total</b>			<b>100.00%</b>	<b>\$285,000</b>
<b>Total</b>				<b>\$285,000</b>

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**Appendix B. Account Numbers/Identifiers for ID 22134 (for office use only)**

<u>Account Name</u>	<u>Account Number/Identifier</u>	<u>Date Opened</u>
Account 1 (Kovack Program) - 36563		